

**REPORT OF THE AUDIT OF THE
MASON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MASON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2001**

This Executive Summary provides an overview of Mason County Fiscal Court's financial activities for the fiscal year ended June 30, 2001. This summary should be read in conjunction with the County's financial statements that follow.

The Auditor of Public Accounts has completed the Mason County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Highlights:

- The County's cash balance as of June 30, 2001 was \$5,236,117, which represents a \$41,844 increase over the cash balance as of June 30, 2000.
- Operating revenue increased by \$429,652 over the prior year and budgeted expenditures decreased by \$351,464 during the same period.

Debt Obligations:

- Total bonded debt principal as of June 30, 2001, was \$7,250,000. Future collections of \$11,622,243 are needed over the next twenty-six years to pay bonded debt principal and interest.
- Capital lease principal outstanding totaled \$1,311,223 as of June 30, 2001. Future principal and interest payments of \$1,706,911 are needed to meet this obligation.
- Outstanding principal on notes totaled \$170,066 as of June 30, 2001. Future principal and interest payments of \$206,097 are needed to meet this obligation.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James L. Gallenstein, Mason County Judge/Executive

Members of the Mason County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Mason County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Mason County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Mason County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James L. Gallenstein, Mason County Judge/Executive
Members of the Mason County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Mason County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2002 on our consideration of Mason County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Mason County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 25, 2002

MASON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

James L. Gallenstein	County Judge/Executive
Patrick McKay IV	Commissioner
F. J. Finn	Commissioner
Jack West	Commissioner

Other Elected Officials:

John Estill	County Attorney
Robert Tribby	Jailer
Frances Cotterill	County Clerk
Edward Tolle	Circuit Court Clerk
Tony Wenz	Sheriff
Betty Hester	Property Valuation Administrator
Robert Brothers	Coroner

Appointed Personnel:

Peggy Heflin	County Treasurer
Kim Muse	Finance Officer
Amanda Kimbler	Payroll Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MASON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	1,814,562	
Road and Bridge Fund:			
Cash		372,794	
Jail Fund:			
Cash		86,769	
Local Government Economic Assistance Fund:			
Cash		335,723	
Payroll Revolving Account - Cash		33,400	
Christmas Withholding Account - Cash		<u>12,572</u>	\$ 2,655,820

Special Revenue Fund Type

Solid Waste Fund:			
Cash	\$	6,386	
Landfill Fund:			
Cash		<u>1,911,075</u>	1,917,461

Debt Service Fund Type

Public Properties Corporation Fund:			
Cash	\$	188,274	
Investments		<u>520,534</u>	708,808

Other Resources

General Fund Type

Road and Bridge Fund:			
Amounts to be Provided in Future Years for Capital			
Lease Obligations - Lease Principal Payments			115,000

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Assets and Other Resources (Continued)

Other Resources (Continued)

General Fund Type (Continued)

Jail Fund:

Amounts to be Provided in Future Years for Capital Lease Obligations - Lease Principal Payments	\$ 5,408
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Local Government Economic Assistance Fund:

Amounts to be Provided in Future Years for Capital Lease Obligations - Lease Principal Payments	58,000
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Special Revenue Fund Type

Landfill Fund:

Amounts to be Provided in Future Years for Capital Lease Obligations - Lease Principal Payments	1,132,815
--	-----------

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Payments	6,541,192
Amounts to be Provided in Future Years for Note Payments	<u>170,066</u>

Total Assets and Other Resources	<u><u>\$ 13,304,570</u></u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

Road and Bridge Fund:

Capital Lease Obligation - Principal (Note 5d)	\$ 115,000
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Jail Fund:

Capital Lease Obligation - Principal (Note 5c)	5,408
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The accompanying notes are an integral part of the financial statements.

MASON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

General Fund Type (Continued)

Local Government Economic Assistance Fund:		
Capital Lease Obligation - Principal (Note 5b)	\$	58,000
Payroll Revolving Account	\$	33,400
Christmas Withholding Account	<u>12,572</u>	45,972

Special Revenue Fund Type

Landfill Fund:		
Capital Lease Obligation - Principal (Note 5a)		1,132,815

Debt Service Fund Type

Public Properties Corporation Fund:		
Bonds Not Matured (Note 4a,b)		7,250,000
Note - Outstanding Principal (Note 4c)		129,795
Note - Outstanding Principal (Note 4d)		40,271

Fund Balances

Reserved:

Special Revenue Fund Type

Landfill Fund - Closure (Note 6)		1,460,242
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Unreserved:

General Fund Type

General Fund	\$	1,814,562	
Road and Bridge Fund		372,794	
Jail Fund		86,769	
Local Government Economic Assistance Fund	<u>335,723</u>		2,609,848

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Special Revenue Fund Type

Solid Waste Fund	\$ 6,386	
Landfill Fund	<u>450,833</u>	<u>\$ 457,219</u>
Total Liabilities and Fund Balances		<u><u>\$ 13,304,570</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MASON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,539,724	\$ 2,072,688	\$ 898,166	\$ 1,067,698
Transfers In	409,399			100,000
Kentucky Advance Revenue Program	1,200,200	1,200,200		
Total Cash Receipts	<u>\$ 8,149,323</u>	<u>\$ 3,272,888</u>	<u>\$ 898,166</u>	<u>\$ 1,167,698</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,580,708	\$ 1,428,801	\$ 843,347	\$ 1,271,221
Transfers Out	409,399	245,825		163,574
Public Properties Corporation Fund Expenditures	114,822			
Bonds:				
Principal Paid	210,000			
Interest Paid	363,733			
Capital Lease - Principal	222,788		15,605	5,073
Notes - Principal	7,300			
Kentucky Advance Revenue Program Repaid	1,200,200	1,200,200		
Total Cash Disbursements	<u>\$ 8,108,950</u>	<u>\$ 2,874,826</u>	<u>\$ 858,952</u>	<u>\$ 1,439,868</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 40,373	\$ 398,062	\$ 39,214	\$ (272,170)
Cash Balance - July 1, 2000*	5,194,273	1,415,428	333,580	358,864
Voided Prior Year Checks	1,471	1,072		75
Cash Balance - June 30, 2001*	<u>\$ 5,236,117</u>	<u>\$ 1,814,562</u>	<u>\$ 372,794</u>	<u>\$ 86,769</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Debt Service Fund Type</u>	
Local Government Economic Assistance Fund	Solid Waste Fund	Landfill Fund	Public Properties Corporation Fund
\$ 563,576	\$ 130,724 100,000	\$ 1,420,569	\$ 386,303 209,399
<u>\$ 563,576</u>	<u>\$ 230,724</u>	<u>\$ 1,420,569</u>	<u>\$ 595,702</u>
 \$ 637,516	 \$ 234,800	 \$ 1,165,023	 \$
			114,822
			210,000
			363,733
5,000 7,300	16,979	180,131	
<u>\$ 649,816</u>	<u>\$ 251,779</u>	<u>\$ 1,345,154</u>	<u>\$ 688,555</u>
\$ (86,240) 421,728 235	\$ (21,055) 27,352 89	\$ 75,415 1,835,660	\$ (92,853) 801,661
<u>\$ 335,723</u>	<u>\$ 6,386</u>	<u>\$ 1,911,075</u>	<u>\$ 708,808</u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Mason County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Mason County Public Properties Corporation as part of the reporting entity.

Mason County Public Properties Corporation:

The Mason County Public Properties Corporation cannot be sued in its own name without recourse to the Mason County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Mason County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Mason County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Mason County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Mason County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Solid Waste Fund and the Landfill Fund of the Mason County Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Mason County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Mason County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Vanguard Treasury					
Money Market	\$ 102,747	\$	\$	\$ 102,747	\$ 102,747
Federal National					
Mortgage Note	417,787			417,787	417,787
Totals	<u>\$ 520,534</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 520,534</u>	<u>\$ 520,534</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

- a) In February 1998, the Mason County Public Properties Corporation issued \$1,880,000 first mortgage refunding revenue bonds for the purpose of paying the outstanding principal and interest of the Mason County, Kentucky Public Properties Corporation first mortgage revenue bonds, Series 1991 (the "prior bonds") through and including June 1, 2001, and redeeming the prior bonds on June 1, 2001. Principal payments are due each year on June 1, in the amounts indicated below. Interest on the bonds is payable each June 1, and December 1, and began on June 1, 1998. The total principal balance was \$1,495,000 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001 - 2002	\$ 68,175	\$ 105,000
2002 - 2003	63,450	115,000
2003 - 2004	58,275	120,000
2004 - 2005	52,875	125,000
2005 - 2006	47,250	130,000
2006 - 2011	143,290	730,000
2011 - 2012	7,820	170,000
Total	<u>\$ 441,135</u>	<u>\$ 1,495,000</u>

- b) In May 1998, the Mason County Public Properties Corporation issued \$5,970,000 first mortgage revenue bonds in order to construct a new court facility. The principal payments are due each year on March 1, starting March 1, 2000, in the amounts indicated below. Interest on the bonds is payable each September 1, and March 1, and began on September 1, 1998. The total principal balance was \$5,755,000 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001 - 2002	\$ 285,696	\$ 115,000
2002 - 2003	280,090	120,000
2003 - 2004	274,240	125,000
2004 - 2005	268,115	130,000
2005 - 2006	261,745	140,000
2006 - 2011	1,200,190	795,000
2011 - 2016	986,340	1,000,000
2016 - 2021	710,750	1,285,000
2021 - 2026	353,500	1,660,000
2026 - 2027	19,250	385,000
Total	<u>\$ 4,639,916</u>	<u>\$ 5,755,000</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long Term Debt (Continued)

Total Mason County Public Properties Corporation bonds outstanding are \$7,250,000.

- c) In March 1999, the Mason County Public Properties Corporation entered into a note with Kentucky Housing Corporation, for rehabilitation of housing for the elderly. The note was for \$135,366 with an interest rate of 2.00% per annum. Principal and interest are to be repaid in twenty equal, consecutive annual installments of \$8,279, commencing on July 1, 2000, and continuing annually thereafter on the first day of July until the maturity date on July 1, 2019. The total principal balance was \$129,795 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001 - 2002	\$ 2,596	\$ 5,683
2002 - 2003	2,483	5,796
2003 - 2004	2,367	5,912
2004 - 2005	2,248	6,031
2005 - 2006	2,128	6,151
2006 - 2011	8,741	32,651
2011 - 2016	5,343	36,049
2016 - 2020	<u>1,590</u>	<u>31,522</u>
Total	<u>\$ 27,496</u>	<u>\$ 129,795</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long Term Debt (Continued)

- d) In December 1998, the Mason County Public Properties Corporation entered into a note with Buffalo Trace Area Development District, for rehabilitation of housing for the elderly. The note was for \$42,000 with an interest rate of 2.00% per annum. Principal and interest are to be repaid in twenty equal, consecutive annual installments of \$2,569, commencing on September 30, 2000, and continuing annually thereafter on the 30th of September until the maturity date on September 30, 2019. The total principal balance was \$40,271 as of June 30, 2001.

Due Date	Scheduled Interest	Scheduled Principal
2001 - 2002	\$ 806	\$ 1,763
2002 - 2003	771	1,798
2003 - 2004	735	1,834
2004 - 2005	698	1,871
2005 - 2006	661	1,908
2006 - 2011	2,713	10,128
2011 - 2016	1,657	11,184
2016 - 2020	494	9,785
Total	<u>\$ 8,535</u>	<u>\$ 40,271</u>

Note 5. Capital Lease Agreements

- a) In June 1996, Mason County entered into a \$1,500,000 lease agreement with Fifth Third Bank for landfill construction. The agreement requires a semi-annual payment of \$74,906, which includes 5.67 percent interest through and including June 1, 2001, and thereafter for each succeeding five year period at a rate equal to the five-year interest rate for U.S. Treasury Obligations, as published by the lessor's treasury department, plus 227 basis points multiplied by .65, as calculated on June 1, 2001, and June 1, 2006. It is to be paid in full, June 1, 2011. The principal balance of the agreement was \$1,132,815, as of June 30, 2001.

Due Date	Scheduled Interest	Scheduled Principal
2001 - 2002	\$ 62,948	\$ 86,864
2002 - 2003	57,953	91,859
2003 - 2004	52,671	97,141
2004 - 2005	47,085	102,727
2005 - 2006	41,179	108,643
2006 - 2011	104,688	645,581
Total	<u>\$ 366,524</u>	<u>\$ 1,132,815</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease Agreements (Continued)

- b) Mason County (the "County") entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT), for waterlines in the Buffalo Trail Water Association (the "Association"). The County became the lessor and the Association the lessee, with the County being the pass-through entity for the lease agreement. The Association makes the required monthly payments to the County and the County remits payments to Bank One. The original lease was for \$85,000, with monthly interest payments due at 5.624 percent, and annual principal payments in various amounts due January 22 for fifteen (15) years, to be paid in full February 1, 2010. The total principal balance of the agreement was \$58,000 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001 - 2002	\$ 3,131	\$ 5,000
2002 - 2003	2,828	6,000
2003 - 2004	2,492	6,000
2004 - 2005	2,156	6,000
2005 - 2006	1,820	6,000
2006 - 2011	<u>3,468</u>	<u>29,000</u>
Total	<u>\$ 15,895</u>	<u>\$ 58,000</u>

- c) Mason County entered into a lease purchase agreement November 9, 1998, with Ford Motor Credit Company for a 1999 Ford E350 Super Cargo Van. The lease was for \$21,006 with four yearly payments of \$5,765 each. The lease is to be paid in full November 9, 2001. The principal balance was \$5,408 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001 - 2002	\$ 357	\$ 5,408
Total	<u>\$ 357</u>	<u>\$ 5,408</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Capital Lease Agreements (Continued)

- d) Mason County entered into a lease purchase agreement with National City Bank on March 22, 2001, for the purchase of a dumptruck and bulldozer. The lease is for \$115,000 at 4.34% interest rate. Interest payments are due semi-annually with the first payment due May 20, 2001. Principal payments of varying amounts are due annually on November 20. The lease is to be paid in full November 20, 2005. The principal balance was \$115,000, as of June 30, 2001.

Due Date	Scheduled Interest	Scheduled Principal
2001 - 2002	\$ 4,535	\$ 21,000
2002 - 2003	3,602	22,000
2003 - 2004	2,626	23,000
2004 - 2005	1,606	24,000
2005 - 2006	543	25,000
Total	<u>\$ 12,912</u>	<u>\$ 115,000</u>

Note 6. Landfill Closure and Post Closure Costs

KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars of the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan.

Through an interlocal agreement with the City of Maysville, the Mason County Fiscal Court manages the operation and accounts for the Maysville-Mason County Landfill. The landfill consists of two landfill cells.

- a) The “old” 21.5-acre residual cell stopped receiving household garbage on June 30, 1995, but continued receiving construction and demolition debris through the spring of 2001, at which time initial steps were taken in the closure of this cell. The estimated closure cost for this cell is \$1,711,000 with estimated post closure costs of \$8,840 a year for a period of thirty years. As of June 30, 2001, the county had expended \$115,121 in closure costs for the “old” residual cell.
- b) The “new” 41.0-acre contained cell has been operational since January 30, 1997. As of January 9, 2001 (survey date), 8% of this cell’s capacity had been used with an estimated remaining life of approximately 48.1 years (17,558 days). The estimated closure cost for this cell is \$4,363,500 with estimated post closure costs of \$23,000 a year for a period of thirty years.

Mason County is required to collect and segregate fifteen percent (15%) of gross receipts of the landfill and account for it in a restricted Landfill Closeout Fund. The balance maintained for landfill closure as of June 30, 2001, was \$1,460,242. The City of Maysville and Mason County Fiscal Court will jointly fund post closure costs.

The estimates above are based on information as of the audit date and can be altered based on inflation/deflation, technology, and laws and regulations.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

During the fiscal year ended June 30, 2001, the Mason County Jail Canteen Fund received \$263,806 and expended \$263,187. The Mason County Jail Canteen Fund reported June 30 ending balances of \$24,011 and \$24,630 for 2000 and 2001 respectively. All profit expenditures were for the benefit and/or recreation of the inmates.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MASON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,938,666	\$ 2,072,688	\$ (865,978)
Road and Bridge Fund	881,100	898,166	17,066
Jail Fund	1,223,733	1,067,698	(156,035)
Local Government Economic Assistance Fund	582,500	563,576	(18,924)
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	105,648		(105,648)
Solid Waste Fund	299,900	130,724	(169,176)
Landfill Fund	<u>1,351,000</u>	<u>1,420,569</u>	<u>69,569</u>
Totals	<u>\$ 7,382,547</u>	<u>\$ 6,153,421</u>	<u>\$ (1,229,126)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 7,382,547
Add: Budgeted Prior Year Surplus			3,307,944
Less: Other Financing Uses			<u>(1,659,487)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,031,004</u>

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SCHEDULE OF OPERATING REVENUE

MASON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	Governmental Fund Type			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,509,091	\$ 1,509,091	\$	\$
In Lieu Tax Payments	38,049	38,049		
Excess Fees	106,101	106,101		
Licenses and Permits	12,343	10,102	2,241	
Intergovernmental Revenues	2,507,079	2,504,079	3,000	
Charges for Services	1,356,785	32,949	1,323,836	
Miscellaneous Revenues	768,292	280,512	143,380	344,400
Interest Earned	241,984	121,245	78,836	41,903
Total Operating Revenue	<u>\$ 6,539,724</u>	<u>\$ 4,602,128</u>	<u>\$ 1,551,293</u>	<u>\$ 386,303</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MASON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,131,362	\$ 860,543	\$ 270,819
Protection to Persons and Property	1,194,323	1,055,729	138,594
General Health and Sanitation	261,350	72,801	188,549
Social Services	30,718	22,339	8,379
Recreation and Culture	128,803	122,819	5,984
Roads	1,039,953	794,893	245,060
Airports	7,725	7,725	
Bus Service	25,000	22,451	2,549
Debt Service	63,971	36,848	27,123
Capital Projects	315,000	299,352	15,648
Administration	2,046,009	885,385	1,160,624
Total Operating Budget - All General Fund Type	\$ 6,244,214	\$ 4,180,885	\$ 2,063,329
Other Financing Uses:			
Capital Leases - Principal	25,678	25,678	
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	1,220,000	1,200,200	19,800
Kentucky Housing Corporation - Principal	5,571	5,571	
Buffalo Trace Area Development District - Principal	1,729	1,729	
Transfers to Public Properties Corporation Fund	209,399	209,399	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 7,706,591</u>	<u>\$ 5,623,462</u>	<u>\$ 2,083,129</u>

MASON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 1,548,430	\$ 1,051,851	\$ 496,579
Debt Service	121,890	71,612	50,278
Capital Projects	288,148	105,889	182,259
Administration	828,322	170,471	657,851
Total Operating Budget - All Special Revenue Fund Type	\$ 2,786,790	\$ 1,399,823	\$ 1,386,967
Other Financing Uses:			
Capital Leases - Principal	197,110	197,110	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 2,983,900</u>	<u>\$ 1,596,933</u>	<u>\$ 1,386,967</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James L. Gallenstein, Mason County Judge/Executive

Members of the Mason County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Mason County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mason County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 25, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

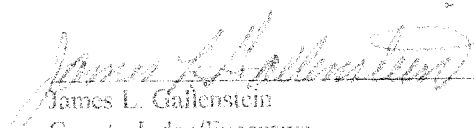
MASON COUNTY FISCAL COURT


For The Fiscal Year Ended June 30, 2001

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MASON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Mason County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


James L. Gallenstein
County Judge/Executive


Peggy Hefflin
County Treasurer